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ECONOMIC RESEARCH
AND ANALYSIS

Ben Johnson
Associates, Inc

August 5, 1992

Office of the Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Gentlemen:

Please accept these reply comments submitted on behalf of the Indiana Office of Utility Consumer Counselor in CC Docket No. 92-77, regarding 0+ dialing. The original and nine (9) copies are enclosed.

Sincerely,

Ben Johnson, Ph.D.
President

BJ/mw

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Before the
Federal Communications Commission
Washington, D. C. 20554

In the Matter of	)	
Billed Party Preference	)	CC Docket No. 92-77
for 0+ InterLATA Calls	)	

REPLY COMMENTS OF THE
INDIANA OFFICE OF UTILITY CONSUMER COUNSELOR

In Comments filed July 7, 1992, the Indiana Office of Utility Consumer Counselor (Indiana) strongly endorsed a system of billed party preference (BPP) for all 0+ interLATA calls. We noted that the current system of routing such traffic is inconsistent with the public interest, due to market failures caused by such factors as monopoly power, barriers to entry, and lack of perfect information. We also addressed the topic of alternative methods of implementation and their implications for the competitive process and long-term customer satisfaction and the preferred scope of the billed party preference system.

Now, the Indiana Office of Utility Consumer Counselor respectfully submits these reply comments in response to the numerous other comments submitted to the Commission related to the Notice of Proposed Rulemaking ("NPRM") adopted by the Federal Communications Commission ("FCC") on April 9, 1992.

These reply comments are presented in two parts. In the first part we respond to the arguments of parties objecting to the proposed billed party preference. In the second part we respond to certain proposals regarding the implementation of billed party preference. We also elaborate upon our own recommendations for implementation.

I. THE ARGUMENTS OPPOSING BILLED PARTY PREFERENCE AND OUR RESPONSES

The arguments voiced in this proceeding in opposition to billed party preference can be briefly stated.

1. Since the presubscription system has been reformed and equal access is becoming the norm, the current system of "dialing party preference" already gives consumers what they want.
2. The current system of presubscription already is "user-friendly," assures the carrier's concern with the calling party, and provides "parity" in operator services by de-emphasizing the advantage of large carriers in obtaining presubscriptions.
3. Any actual advantages of BPP over the current system are outweighed by BPP's drawbacks.
4. The expense of implementation of BPP exceeds the potential benefits.
5. BPP will stifle innovation and technological development.
6. BPP will have a devastating economic effect upon call aggregators that depend upon their "0+" stream of commission revenue.

We have organized our responses in the form of counter arguments:

1. Presubscription reforms are mere finger exercises and vastly inferior to billed party preference.

The defenders of presubscription claim its problems have been solved and that presubscription—in combination with the consumer information and aggregator unblocking required by the Commission—has created an effective system of "dialing party preference." Supposedly, the dialing party chooses the carrier, either by opting to use the presubscribed OSP or electing to use an access code to select an alternative carrier.

It is now true in theory that with some exceptions consumers can select an OSP of their choice when using a payphone by dialing a 10XXX access code prior to dialing zero plus the number being called. However, in practice this is often not the case.

Customers using phones at hotels, motels, and other aggregator locations are frequently prevented from reaching their preferred OSP because 10XXX access is blocked by the aggregator or (illegally) by the paystation provider. Even where access is not actually blocked, sound consumer choice is discouraged because consumers are not given enough information to evaluate in advance whether or not the preselected OSP provides good quality, or charges fair prices. In the case of customers reversing the charges, they not only lack the necessary information to make a sound choice, they lack the incentive. While some may have no desire to impose an excessive burden on the callee, the person placing the call will often be unable to use, or have no knowledge of, the callee's preferred carrier. According to AT&T, the majority of collect calls are not placed to the caller's own home or office. And, according to Ameritech, as many as five million of these calls are misrouted every month.

But these abuses are not the only problem. The core issue is not the continued unavailability of 10XXX access but, rather, its unpopularity. What callers actually want is to reach their chosen OSP without the inconvenience of executing at least twenty-five finger movements—or, where equal access is not available, as many as thirty-six. This strong dialing preference outweighs considerations of price and quality, leaving customers vulnerable to abusive practices, and ensuring that market competition will not be effective.

2. The current system of prescription is rife with market failures and fosters exploitative local monopolies.

A system in which consumer sovereignty, the centerpiece of free markets, has been replaced by middleman and con-man sovereignty cannot be accurately described as "consumer friendly." Consumers, confused and frustrated by seemingly random low quality service at unexpectedly high rates, cannot make informed and efficient choices under the current system.

Market failure allows carriers to slight consumers and precludes "parity" in operator services. AT&T clearly dominates the national market and can greatly influence the nationwide level of 0+ prices. MCI, Sprint, and smaller legitimate OSPs struggle to

compete effectively with AT&T, and must try to overcome the poor reputation that some shady operators have earned for the OSP industry.

On a local scale, OSPs preselected to receive all 0+ calls from particular paystations, airports, and hotel phones can dictate the prices paid by transient but captive consumers. This type of control over pricing by the selected sellers is prima facie evidence of market failure. The current 0+ market fails to meet the requirements for effective competition.

Under the current system buyers have imperfect knowledge. Moreover, there is nonhomogeneity of service in which quality seems to vary randomly. Aggregators and premises owners exclusively select one carrier for 0+ traffic. Being court-ordered, this amounts to an exclusive franchise granted to a single seller, creating many of the conditions of a local monopoly. In many cases, this exclusive franchise is granted for reasons inconsistent with the public interest, such as maximizing commission payments.

As noted in the NPRM, the present system rewards the OSPs that service the largest number of paystation and other aggregator locations—typically, the OSPs who can pay the highest commissions. They have little, if any, incentive to provide high-quality service at "competitive" rates to the transient public when their real customers are the payphone providers or premises owners.

A ubiquitous billed party preference system would shift the OSPs' focus to the end users. The competitive process would thus be focused on customer satisfaction. Billed party preference would also eliminate much of the confusion and frustration provoked by the present system. The unscrupulous OSPs that charge exorbitant rates and deliver poor service would be forced to reform their practices, in order to attract a sizable body of loyal customers, or they would be quickly driven from the 0+ market. Either consequence would be in the public interest.

3. The drawbacks alleged against BPP are vastly overstated.

Critics say that the advantages of billed party preference are outweighed by the system's drawbacks. The most frequent allegation is that on operator-assisted calls, billed party preference will require the intervention of two operators instead of one.

They say that all 0+ calls will first be routed to the LEC Operator Service System (OSS). A LEC operator will come on line, determine the nature of the call, launch a query to the LIDB database to identify the preselected OSP, and then route the call to the OSP's operator center in order for the OSP's operator to provide assistance (the "only assistance required today under the present system").

This allegation is false. As Bell Atlantic has indicated in its comments in this proceeding, billed party preference would not require callers to provide the same information twice or speak with two operators. New network capabilities and SS7 interconnection will permit exchange carriers to pass on the information provided to them for carrier identification purposes to the interexchange carrier. Furthermore, the many independents who obtain their operator services capabilities from the Bell and General telephone companies will automatically get the benefits of the technology in these carriers' networks in avoiding the two-operator problem.

As Sprint has suggested, this problem arises potentially only where SS7 signalling is unavailable or where the call is collect, billed to a third number, or person-to-person. Even in these cases, most "double operator" situations will be eliminated with the advent of Automated Alternate Billing Service (AABS) technology.

When AABS is in place, a caller will dial 0 plus the called number, then respond to a series of voice prompts (e.g., "To make a calling card call press 1, to make a collect call press 2 . . . "). On collect calls, AABS will ask the caller's name, perform a LIDB enquiry to determine the billed party's 0+ carrier, make the connection, and verify acceptance through automated voice technology. A similar procedure will automate third-number billing. The use of voice-recognition technology (already being deployed by AT&T) will permit the automated handling of such calls from rotary dial phones as well.

It is also alleged that billed party preference will delay the processing of calls substantially—perhaps doubling the time required for set-up. There are two difficulties with this claim. First, it usually assumes (wrongly, as we have just pointed out) that two live operators will be required. Second, it compares apples and oranges. Access and call set-up times under billed party preference are incommensurate with the time required today, when a consumer must decide whether an access code is needed, and which one, before beginning the lengthy dialing process.

Sprint has estimated that calling card calls will take less than four seconds. With deployment of AABS technologies, the completion of an automated collect or billed third party call will probably be faster than such calls today using live operators. What is more, a later generation technology, initially developed by MessagePhone to offer AMDS, is capable of providing billed party preference for all public and private pay telephones. This technology currently is being marketed to the Regional Bell Operating Companies by Unisys Corporation.

Regardless of which technology is used, the costs of additional network processing time are relatively minor. It must be remembered the current system is highly inefficient. Knowledgeable customers will routinely use 10XXX dialing rather than 0+ in order to avoid the shady operators. This requires additional network time. Other consumers will try to decide each time they place a call what they should do. This constant decision-making struggle is also expensive, since the consumer's time is valuable, and time spent looking for the name of the carrier, or trying to make a decision is time that cannot be put to a better use. By comparison, at least if the consumer is delayed momentarily while waiting for a BPP system to process the call, the consumer can be daydreaming or planning their conversation.

Moreover, the time estimates for the current system do not take into account the wasted time that consumers lose as a result of placing a 0+ call and only belatedly realizing that it is not being processed by their preferred carrier, thereby necessitating complete redialing of the call.

4. BPP's benefits far outweigh the moderate expense of implementation.

It is also argued that the expense of implementing billed party preference will be out of proportion to any actual benefits. Cost estimates range up to $1.4 billion for the combined regional BOCs (PacTel's $200m times 7). AT&T has estimated its expense attributable to 0+ traffic at $560 million.

However, Sprint suggests that the system development costs for the inter-exchange carriers will be relatively small if the LECs utilize uniform technology and signalling for billed party preference. Then the greatest cost would be in the replacement of all cards incompatible with the new system. Sprint estimates this cost to be about $2 per card (including the card itself and instructional materials). Card replacement will be minimized if the Commission requires fourteen-digit screening in LIDBs so that the OSPs can retain proprietary line-numbered cards.

Moreover, the line-numbered cards are the most user-friendly of all calling card formats. The customer need only remember (or to look up) the four digit PIN. Fourteen-digit screening in LIDB may be feasible within the planned timeframe for implementing billed party preference. According to Sprint, "some form of 14-digit screening may be available for the Bellcore-standard LIDBs by the end of 1993." U.S. West's total estimated cost of implementation is $149 million.

Since all of the cost estimates submitted in this proceeding are somewhat speculative, the Commission gather more information before committing to a particular plan. However, it is already clear that many companies are planning to adopt these new technologies in any case. Thus not all costs in the deployment of OSS7, LIBD, and AABS should be charged to the implementation of billed party preference. Rather, many of these costs are sound investments for other reasons, and thus are irrelevant to the debate over whether or not a BPP system should be adopted.

As one example, as the Missouri PSC has indicated, in that state much of the hardware and software required for billed party preference, including SS7, is either in place or scheduled for deployment within the next few years. Moreover, LIDB has been built for much of Missouri.

The deployment of SS7 in Missouri was viewed as an infrastructure upgrade, and not attributable to a particular use. Such upgrades have wide functionality, including more efficient local service. A further upgrade of the present SS7 to an operator service system version for end offices, not very costly, may be all that is required for the efficient functioning of billed party preference.

The implementation of billed party preference will have relatively nominal cost, if it is accomplished in conjunction with the planned installation of OSS7, LIBD, and AABS—or the "state of the art" in telecommunications technology—by the leaders in telecommunications.

5. Billed party preference will neither strand significant investment nor stifle innovation.

Fifth, it is claimed that mandatory billed party preference will strand investment and stifle innovation and technological development. The technology at issue appears to be the automatic dialing, storing, and forwarding devices designed to program the phones of aggregators and payphone providers around billed party preference. With BPP, much of this equipment will be unnecessary.

Several arguments have been advanced for retaining it. Autodialers and store and forward devices "have proven to be important technological innovations," says the Competitive Telecommunications Association, which contends that these devices have enabled customers to greatly reduce their reliance on any particular carrier, so as to utilize multiple IXCs and purchase unbundled LEC services. Furthermore, it is said, the "stranded investment" would send companies a signal not to invest in either the development or deployment of new technology for fear the Commission would later call for its disablement.

However, this argument carries little weight. In telecommunications technology, which is increasingly intermeshed with computer science, new hardware has a half life of a few years, new software even less. Even if the "smart" or "store and forward" telephones of independent telephone providers are already obsolete, this should not be unduly disturbing. A telephone able to decide which LEC or OSP the customer

should be connected is not necessarily very "smart" relative to today's technology. Similar functions can be performed with OSS7 and LIDB technologies, plus a great deal more. The later technologies are far more advanced than the "smart" phones. In any event, the BPP environment will undoubtedly call forth a new generation of "smart" telephones which are designed to work well within the new environment—with its emphasis on consumer sovereignty.

Finally, it is claimed, disablement of the existing devices would have the secondary effect of enhancing the LECs' monopoly power. The distribution of network intelligence would be diverted from customer premises and back to the LECs. The LECs would become the gatekeepers for all transient calling. As we have noted, the multiple market failures under the current system are related to the tight relationship of the OPS and the local monopoly aggregator. We need to eliminate middleman and con-man sovereignty and replace it with consumer sovereignty. Once this is done, the manufacturers of sophisticated pay phones and other telephones will undoubtedly adapt and call forth a new generation of equipment which will be far more useful to society than the existing obsolete technology.

6. The projected diminution or loss of aggregator commissions is not an argument against BPP implementation, but an argument for it.

Sixth, there are predictions of economic damage to aggregators who presently receive commissions in return for allowing telephones on their premises. Obviously, with the advent of billed party preference, the presubscribed OSP would no longer be assured of the majority of traffic from an aggregator's location, regardless of price or quality.

The PPOs argue that "those other than hotels, airports and other entities for which public telephones are an essential, may well reduce the availability of public telephones" [Comments of the Northwest Pay Phone Association Opposing Billed Party Preference, p. 5.] Even if this speculation were accurate, it would not provide a sufficient basis for rejecting the BPP system.

To the extent public phone locations are economically justified, they should be able to survive without depending upon overpriced long distance service and excessive commissions. The income from local calling alone should be sufficient to support an adequate and diverse supply of public telephone locations, particularly since rates for this service are unregulated. Thus, PPOs are free to increase prices on local calls, in order to offset the loss of long distance commissions. To the extent they do so, consumers will at least be fully informed of the price that they are paying for the convenience of calling from that location.

Departments of corrections plead for special treatment, due to their unique problems with fraud, and because such institutions consider presubscription commissions an important source of revenue. According to one institution, over ten percent of telephone calls placed by inmates from within the prisons are billed to nonexistent, unauthorized, or "scam" telephone numbers. [Comment of the Arizona Department of Corrections, pp. 3–4.]

It is not clear that fraud will increase under a BPP system. To the contrary, the investment in new technology for this system should also yield benefits in terms of the ability to detect and prevent fraud. Rather than rejecting the BPP system, the Commission should adopt rules that allow special measures at these locations, in order to minimize the problems. For example, prisons might be allowed to restrict the types of long distance calls which can be placed from their phones. If third party billings, for example, were particularly susceptible to fraud from these locations, it would be reasonable to allow these type of calls to be blocked. Depending upon the technology which is used to implement the BPP system, it might also be feasible for the data base queries to recognize the fact that a call is being placed from a prison location. This would facilitate additional screening precautions, in order to minimize fraud.

Some universities and colleges oppose billed party preference because the loss of commissions would diminish their budgets. Typical is the complaint from Harvard University. "If commissions and sent-paid screening were no longer available with BPP, Harvard would be forced to raise rates, or consider surcharges, to recover the cost of

network access for 0+ and 0- calls and for sent-paid nonbillable calls" [Letter from Maurice D. Murphy, Associate Director, Network Services, Harvard University.]

A few state governments take the same position with regard to their own budgets as well as the budgets of their universities and correctional institutions. For example, Pennsylvania's Department of Corrections "earned" $1,823,647.20 in commissions in its last fiscal year. Other agencies in the state government "earned" $692,700 during the same period. [Letter from R. M. Walsh, Governor's Office, Commonwealth of Pennsylvania.]

However, one of the purposes of billed party preference is to end the monopoly power which leads to inflated commissions. The OSP operating under billed party preference could shift its marketing focus away from contracting with the premises owner to the marketing of their calling cards to consumers. This would eliminate the pernicious middleman sovereignty.

In the case of government agencies, they have more than enough monopoly power in other areas (e.g., taxing authority) to ensure an adequate flow of income. The argument that these agencies should be able to maintain a large flow of income from a hidden form of taxation (commissions on long distance calls) is not persuasive, considering that they can readily replace this income with a more visible stream of income from other sources (e.g., taxes).

The original intent of presubscription was to minimize or eliminate lengthy access codes and still allow the customer free choice. This condition has simply not been achieved with respect to calls placed from aggregator locations. For calls placed from paystations, hotels, hospitals, airports, and similar locations, consumers still lack effective control over the service provider; nor can they effectively control the amount they pay for the service they are forced to accept. Even to the limited degree consumer sovereignty has been achieved, people are forced to use cumbersome, time-consuming, and unpopular dialing procedures (e.g., 10XXX).

While the BPP system may lead to the diminution or demise of commissions, that does not mean that aggregators will be left entirely without any ability to profit

from long distance calling. To the contrary, hotels, motels, hospitals, prisons, and other locations can receive compensation directly from the caller, most likely in the form of flat charges for each outgoing long distance call. This can be billed and collected by the aggregator directly, as part of the room charge. In fact, many aggregators already engage in this practice, with relatively few problems from the perspective of consumer protection or economic efficiency. Similarly, pay phone operators could require payment of a small fee (typically a quarter) before completing long distance calls. This has worked well for local calls, and it would be just as feasible for long distance calls. At least under this system of compensation, the consumer is not defrauded, and has full advance knowledge of the fee which is being charged for the service which is being offered.

II. COMMENTS ON IMPLEMENTATION

1. A ubiquitous system is preferable.

The Indiana Office of Consumer Counselor recommends an ubiquitous system of billed party preference, available from all payphones, motels, hotels, and other aggregator locations nationwide, and from all private business and residence phones. Moreover, to the extent it is technically feasible at a reasonable cost, BPP should be available in both equal access and nonequal access serving areas.

Ubiquitous implementation is widely supported in the industry (see, **e.g.,** the comments of Bell Atlantic, MCI, MessagePhone, Inc., U.S. West, Ameritech, Sprint, SNET, GTC, Southwestern Bell Telephone Company, and LiTel Telecommunications Corporation). Mastercard International Incorporated and Visa U.S.A., Inc. also support ubiquitous implementation in their comments in this docket.

2. Where implementation is delayed, a compensatory mechanism should be utilized.

To the extent ubiquitous implementation might fall short, for instance at nonequal access locations, a customer placing a 0+ call should be billed at the rate charged by the OSP issuing the CIID card, even though the call itself is handled by

another OSP. OSP's who are unable or unwilling to comply with this requirement should be prohibited from providing 0+ service at nonconforming locations.

3. Universal BPP implementation should be accomplished in four stages.

We recommend that the FCC implement universal billed party preference in four stages. First, the Commission should immediately issue an order mandating universal billed party preference within a prescribed time frame, including a national service description. The most probable completion date would be mid-1996.

Second, as a transitional measure, the Commission should immediately mandate all OSPs to provide a complete advertising and public information program making clear to customers that callers can—through certain procedures—reach their OSP of choice by dialing extra digits.

Third, the Commission should encourage an acceleration in the deployment of OSS7 and LIDB, as long as the costs are not excessive.

Fourth, billed party preference should be universally implemented, with the routing of calls being handled under five standard rules:

(1) When an IXC calling card is used, the LECs would either identify the OSP at the OSS itself by reading the first six digits on the card, or they would query the issuing IXC's data base for routing.

(2) The LECs would enter the LIDB system in which they have designated a primary and secondary choice for calls originating in areas where the primary OSP is unavailable.

(3) A separate OSP selection would be designed for international calls.

(4) The LIDB system information would be used for carrier identification on 0+ interLATA collect and third party calls, as well as calls billed to LEC calling cards, which would continue to be either line-number based or in the Revenue Accounting Office (RAO format). We consider the line-number format to be the most convenient for consumers. However, the availability of any calling card information in LIDB to any carrier—exchange or interexchange—might be a disadvantage to carriers.

(5) The routing of calls via an access code or via 1+ would not be altered under billed party preference. (Access code calls would be routed directly to the IXC associated with the dialed access code and the 1+ calls would continue to be routed to the carrier presubscribed to the originating line.) The 00- calls should continue to be routed to the operator service of the IXC presubscribed to the originating line.

4. Providers should be required to upgrade their networks.

In order to implement billed party preference, LECs and OSPs will need to upgrade their networks. LECs will need to upgrade to SS7 both at the end office, and at the operator service switches for complete call processing. Other upgrades are needed to various system, such as LIDB and AABS. Some major companies either have this capability or else plan to implement it soon.

U.S. West, for example, the successor of three former Bell Operating Companies, uses different equipment in different parts of its territory to provide operator service. In seven states, U.S. West uses 14 Traffic Operator Position System ("TOPS") switches, manufactured by Northern Telecom, Inc. These NTI switches already have AABS functionality. In its remaining seven states, U.S. West has eight OSPS switches which are manufactured by AT&T. These switches do not have AABS functionality and U.S. West does not know what the costs of deploying that capability would be. An estimated figure of $20.5 million is used on the assumption of a rough equivalency between NTI and AT&T prices for AABS functionality. [See Comments, this docket, p. 5, footnote 11.]

Wherever U.S. West or some other carrier does not have AABS functionality, the customer defaults to a LEC live operator. That operator would need to determine the type of call the customer wants to make, and the third party billing number, if relevant. The operator would then query LIDB, and again pass the call to the preferred OSP with the same information noted above. If necessary, the OSP operator would need to secure acceptance from the billed party. Therefore, for non-AABS calls (until AABS is installed), two operators are required.

The cost difference between deploying billed party preference on some lines or for some dial 0 calls, compared with deploying billed party preference on all lines and all interLATA dial 0 calls are modest. [See the estimates under three different scenarios in Comments of The Ameritech Operating Companies, in this docket, pp. 16–17.] The differences estimated by Ameritech vary from a low of $0.14 unit costs for all interLATA 0+ traffic from all lines to $0.16 for all interLATA and 0+ and 0- calls from every line to a high of $0.18 for all interLATA payphone traffic. (Again, these are costs which may be incurred even in the absence of billed party preference in efforts to upgrade services.) All of these cost estimates are relatively modest, and are well justified by the benefits which will be provided to the public.

Conclusions

There are numerous advantages to the implementation of billed party preference. Any dominant carrier's advantage would be substantially diminished. Billed party preference will enhance competition by changing the incentives in the OPS and payphone markets. The consumer, not the premises owner, will select the OSP on the basis of such factors as quality of service. The OSPs will have to compete for the consumer's dollars. The OSPs would have incentives to provide unique, high quality services at competitive prices. By the same token, payphone providers will have to compete to provide phones at aggregator locations based on the quality of their services rather than the amount of commission payments they provide to the aggregator. Consumer choice and competition will be promoted.

Billed party preference provides a means for the IXCs to compete in the calling card market. Billed party preference would extend to all IXCs the benefits of nearly universal 0+ dialing and card acceptance that today are enjoyed only by AT&T. Furthermore, billed party preference would facilitate a more competitive marketplace in which customers will know more about quality and prices before they place a call, since they will know which carrier they are using, and can become more familiar with its offerings. This system will also foster a marketplace in which OSPs compete on the

merits of their services, rather than on the size of the commission payments they can provide to aggregators who hold a captive clientele hostage.

II. COMMENTS ON IMPLEMENTATION

1. A ubiquitous system is preferable.

The Indiana Office of Consumer Counselor recommends an ubiquitous system of billed party preference, available from all payphones, motels, hotels, and other aggregator locations nationwide, and from all private business and residence phones. Moreover, to the extent it is technically feasible at a reasonable cost, BPP should be available in both equal access and nonequal access serving areas.

Ubiquitous implementation is widely supported in the industry (see, e.g., the comments of Bell Atlantic, MCI, MessagePhone, Inc., U.S. West, Ameritech, Sprint, SNET, GTC, Southwestern Bell Telephone Company, and LiTel Telecommunications Corporation). Mastercard International Incorporated and Visa U.S.A., Inc. also support ubiquitous implementation in their comments in this docket.

2. Providers should be required to upgrade their networks.

In order to implement billed party preference, LECs and OSPs will need to upgrade their networks. For complete call processing, LECs will need to upgrade to SS7 both at the end office and at the operator service switches. Other upgrades are needed to various systems, such as LIDB and AABS. While improvements are required, it is important to recognize that some companies already have begun to install the necessary upgrades, or else plan to implement them soon. Many of these network improvements will be made, regardless of whether a system of BPP is mandated by the Commission.

The technical details and the costs of the necessary network improvements vary from carrier to carrier. Furthermore, in many instances exact cost figures are not yet

available. Thus, it is impossible at this time to predict the exact cost of the BPP system, or to determine the most cost effective method for implementation.

For example, US West, the successor of three former Bell Operating Companies, uses different equipment in different parts of its territory to provide operator service. In seven states, it uses 14 Traffic Operator Position System ("TOPS") switches, manufactured by Northern Telecom, Inc. These NTI switches already have AABS functionality. In its remaining seven states, US West has eight OSPS switches which are manufactured by AT&T. These switches do not have AABS functionality, and US West does not know what the costs of deploying that capability would be. An estimated figure of $20.5 million is used on the assumption of a rough equivalency between NTI and AT&T prices for AABS functionality. [See Comments, this docket, p. 5, footnote 11.]

Wherever US West or some other carrier lacks AABS functionality, the customer defaults for certain types of calls to a LEC live operator. That operator would need to determine the type of call the customer wants to make, and the third party billing number, if relevant. The operator would then query LIDB, and again pass the call to the preferred OSP with the same information noted above. If necessary, the OSP operator would need to secure acceptance from the billed party. Therefore, for non-AABS calls (until AABS is installed), two operators will required in some instances.

3. The benefits outweigh the costs.

There is only a modest cost difference between deploying billed party preference on some lines or for some dial 0 calls, and deploying it on all lines and for all inter-LATA dial 0 calls. [See the estimates under three different scenarios in Comments of The Ameritech Operating Companies, in this docket, pp. 16–17.]

For instance, Ameritech's estimates of costs vary from a low of $0.14 to a high of $0.18 per call. NYNEX's estimates vary from $.11 to $.18 per call under a similar range of assumptions. [See Comments of the NYNEX Telephone Companies, in this docket, pp. 19–20.] Both of these cost ranges may be overstated, since they

apparently include network improvement costs that may be incurred even in the absence of billed party preference. Regardless, the costs are relatively small, as are the additional costs of implementing BPP on a universal basis.

At this stage of the proceedings, the costs estimates from all sources should be viewed as preliminary. As the companies gain more and more information about the technology of the system and more data from their vendors, their figures are likely to become more accurate.

Interestingly, the general trend in cost estimates has been downward as the BPP concept has become better understood. For example, Pactel initially estimated its cost in excess of $200 million. [Pactel Supp. Reply, December 23, 1991.] Later it dropped its estimate to about $116 million for installation and $26 million for ongoing costs [Comments of Pacific Bell and Nevada Bell, in this docket, p. 22.]

Similarly, the Commission quoted the original cost estimates claimed by AT&T for its 0+ traffic as "in excess of $560 million." [Notice of Proposed Rulemaking, Federal Communications Commission, Adopted April 9, 1992, p. 11.] But more recently, AT&T detailed its estimates by source (without reporting a total cost), and the sum of the various cost components total just $68 million. [AT&T Comments, in this docket, pp. 12–14.]

The most detailed cost estimates have been provided by NYNEX. With the assumption that all accounts are balloted for preference under all interLATA 0+ and 0- calls, NYNEX estimates total initial implementation costs to be $82.6 million for its service area. With "bill inserts" notifying customers of their right to presubscribe to a 0+ carrier different from their 1+ carrier, that cost estimate drops to $65.4 million. [See Comments of the NYNEX Telephone Companies, in this docket, Attachments A and L.] If these costs are extrapolated to all seven RHCs plus GTE, the total nationwide initial costs for the "system" would be in the $520 million to $660 million range. If (say) a third of these costs are not specifically attributable to BPP (because the requisite technology will already be in place), the cost range becomes $347 million to $440 million.

A great deal of perspective is gained from looking at NYNEX's estimates in terms of cost per call. Assuming all accounts are balloted as to carrier preference, the estimated one-time expenses over three years is $0.0754 per call. Using bill inserts only, the cost per call drops to an estimated $0.0371. The associated annual or recurring costs per call are $0.1433 and $0.1050. Hence, the total costs per call would be $0.2211 and 0.1828, respectively, for the two scenarios.

These total costs can be deceptive, however, because they apparently include some costs that would eventually be incurred by the carriers in any case. Furthermore, they focus on the early years after implementation, when certain costs are being rapidly amortized. Because of this rapid amortization, after just three years the cost per call drops significantly. If a longer amortization period were used, the initial cost per call would be lower, but it would not decline as quickly.

In any event, all of these cost estimates are relatively modest, considering the offsetting benefits to the public. Currently, the charges for 0+ service are substantially in excess of cost—a clear indication that the market is not effectively competitive. In fact, some OSPs impose very high surcharges per call, and excessive rates per minute. For these OSPs, the 0+ rates can exceed the typical 1+ dialed rates by $2 to $5 or more per call. High rates are not limited to a handful of small OSPs under the current system, however. Even major carriers like AT&T impose a hefty premium for 0+ calls relative to 1+ service—typically in the range of $1 or more per call.

For reasons explained in our initial Comments, the BPP system will lead to more effective competition. Thus, it is reasonable to anticipate that rates will be driven towards cost as monopoly power is reduced and monopoly profits are eliminated, and that carriers will be forced to become more efficient in their provision of 0+ calling service, thereby reducing their costs. For both of these reasons, it is apparent that customers will benefit substantially from the BPP system.

Regardless of whether the cost of the BPP system is as much as $.22 per call, or less than $.10 per call (depending upon which estimates you believe), it is readily apparent that these additional costs will be more than outweighed under a system of

billed party preference by the additional benefits from greater consumer sovereignty, more effective competition, and lower rates.

4. Where implementation is delayed, a compensatory mechanism should be utilized.

To the extent ubiquitous implementation might fall short, for instance at non-equal access locations, a customer placing a 0+ call should be billed at the rate charged by the OSP issuing the CIID card, even though the call itself is handled by another OSP. OSPs that are unable or unwilling to comply with this requirement should be prohibited from providing 0+ service at nonconforming locations.

5. Universal BPP implementation should be accomplished in four stages.

We recommend that the FCC implement universal billed party preference in four stages. First, the Commission should immediately issue an order mandating universal billed party preference within a prescribed time frame, including a national service description. A reasonable completion target would be mid-1996.

Second, as a transitional measure, the Commission should immediately mandate all OSPs to provide a complete advertising and public information program making clear to customers that callers can—through certain procedures—reach their OSP of choice by dialing extra digits.

Third, the Commission should encourage an acceleration in the deployment of OSS7 and LIDB, as long as the costs are not excessive.

Fourth, billed party preference should be universally implemented, with the routing of calls being handled under five standard rules:

> (1) When an IXC calling card is used, the LEC either identifies the OSP at the OSS itself by reading the first six digits on the card, or else queries the issuing IXC's data base for routing.
>
> (2) Each LEC loads into an LIDB system in which it has designated a primary and secondary OSP choice for each telephone line. The secondary OSP provides nationwide "presence" for a small or regional OSP. Thus, for calls originating in areas where the primary OSP is unavailable, the

LEC OSS routes the call through the LIDB system to determine the default preferred carrier for the line.

(3) International calls are subject to a separate OSP selection.

(4) LIDB system information is to be used for carrier identification on 0+ interLATA collect and third party calls, as well as on calls billed to LEC calling cards. The latter will continue to be either line-number based or in the Revenue Accounting Office (RAO format). We consider the line-number format to be more convenient for consumers. However, the availability of any calling card information in LIDB to any carrier—exchange or interexchange—might be a disadvantage to carriers.

(5) Under billed party preference, the routing of calls via an access code or via 1+ is not altered. (Access code calls are to be routed directly to the IXC associated with the dialed access code; 1+ calls are still to be routed to the carrier presubscribed to the originating line.) The 00- calls should continue to be routed to the operator service of the IXC presubscribed to the originating line.